

Message Text

LIMITED OFFICIAL USE

PAGE 01 MEXICO 04780 01 OF 02 140031Z

70

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

H-02 L-03 PA-01 PRS-01 /085 W
----- 054835

P 132300Z APR 76

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC PRIORITY 4226

INFO DEPT OF TREAS WASHDC PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 MEXICO 4780

TREASURY FOR J. NEWMAN

E.O. 11652: N/A

TAGS: EFIN MX

SUBJECT: OBLIGATIONS OF MEXICAN FINANCIAL INSTITUTIONS TO
FOREIGNERS

REF: NEWMAN/PASCOE TELECON

1. SUMMARY: WE ARE NOT AWARE OF ANY DOUBTS REGARDING
SOLVENCY OF MEXICAN BANKING SYSTEM. THERE IS, HOWEVER,
CONSIDERABLE SKEPTICISM RE GOM'S ABILITY TO MAINTAIN THE
PRESENT EXCHANGE RATE. SHOULD A RUN ON PRIVATE BANKS
DEVELOP, IT COULD BE STARTED BY MEXICANS AS WELL AS
FOREIGNERS SINCE THERE ARE NO CONTROLS ON THE PURCHASE OR
SALE OF FOREIGN CURRENCY BY EITHER MEXICAN OR FOREIGN RESI-
DENTS. CENTRAL BANK COULD PROTECT SOLVENCY OF PRIVATE BANKS
AS A RESULT OF RUN THROUGH DISCOUNTING OR REDUCTION IN
RESERVE REQUIREMENTS. MONEY SUPPLY NARROWLY DEFINED WAS
EQUIVALENT OF \$8.8 BILLION AT END-JANUARY. QUASI-MONEY WAS
\$15.9 BILLION. ONE PROXY FOR POTENTIAL CONVERSION INTO
DOLLARS WOULD BE MOST LIQUID INTEREST-BEARING DEPOSITS,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MEXICO 04780 01 OF 02 140031Z

SIMILAR TO PASSBOOK SAVINGS. THESE ACCOUNTED FOR ONE-THIRD

OF QUASI-MONEY AS OF END-JANUARY. DEPOSITS OF BANKS WITH CENTRAL BANK WERE ABOUT \$7 BILLION AT END JANUARY SO A RUN COULD BE MANAGED IN TERMS OF PESOS, THOUGH NOT IN TERMS OF RESERVES, WHICH WERE \$1.6 BILLION AS OF MARCH 26. (SEE MEXICO 4650). FOR THIS REASON, MAINTAINING CONFIDENCE IN PRESENT EXCHANGE RATE IS MAJOR OBJECTIVE OF GOVERNMENT. DOLLAR-DENOMINATED LIABILITIES OF PRIVATE BANKS WERE \$1.2 BILLION AS OF END-JANUARY, MOSTLY TO INDIVIDUALS, BOTH MEXICAN AND FOREIGN-RESIDENTS, AND MOSTLY IN FIXED-TERM DEPOSITS. THESE FUNDS ARE EITHER ON DEPOSIT WITH CENTRAL BANK OR IN DOLLAR-DENOMINATED SECURITIES. DOLLAR DENOMINATED LIABILITIES OF NATIONAL CREDIT INSTITUTIONS WERE \$7.9 BILLION AT END-JANUARY. MOST OF THESE ARE FIXED-TERM LIABILITIES TO FOREIGN FINANCIAL INSTITUTIONS, INCLUDING WORLD BANK AND IDB. FEDERAL GOVERNMENT IS RESPONSIBLE FOR FOREIGN OBLIGATIONS OF NATIONAL CREDIT INSTITUTIONS, MEXICO'S PUBLIC SECTOR FUNDED EXTERNAL DEBT WAS ABOUT \$11.3 BILLION AT END-1975. PUBLIC SECTOR SHORT-TERM EXTERNAL DEBT WAS ABOUT \$3 BILLION. PRIVATE SECTOR EXTERNAL DEBT IS UNKNOWN, BUT ESTIMATED AT \$6-8 BILLION AT END-1975. PESO-DENOMINATED OBLIGATIONS TO FOREIGNERS ALSO UNKNOWN, BUT ESTIMATED AT \$1-2 BILLION. END SUMMARY.

2. MEXICAN PRIVATE BANKS ARE SUBJECT TO STRICT REGULATIONS ISSUED BY CENTRAL BANK (BANK OF MEXICO) AND ENFORCED BY NATIONAL BANKING COMMISSION (NBC) WHICH INSPECTS BANKS. NO FINANCIAL INSTITUTION SUBJECT TO NBC (ALL DEPOSIT, SAVINGS AND MORTGAGE BANKS PLUS FINANCIERAS) HAS FAILED IN AT LEAST THIRTY-FIVE YEARS. SHOULD A BANK APPEAR IN TROUBLE, NBC TAKES OVER OPERATION OF INSTITUTION AND, IF NECESSARY, GOM BECOMES OWNER. THERE ARE FOUR BASIC TYPES OF PRIVATE BANKING INSTITUTIONS IN MEXICO: (A) DEPOSIT BANKS; (B) SAVINGS BANKS; (C) MORTGAGE BANKS, AND (D) FINANCIERAS. DEPOSIT BANKS DEPEND ON CURRENT ACCOUNTS FOR FUNDS AND GENERALLY MAKE SHORT-TERM COMMERCIAL LOANS. THEY ACCOUNT FOR ROUGHLY 25 PERCENT OF TOTAL PRIVATE BANK LIABILITIES. SAVINGS AND MORTGAGE BANKS DEPEND ON FIXED-TERM DEPOSITS, GENERALLY MAKE MORTGAGE LOANS, AND ACCOUNT FOR LESS THAN 25 PERCENT OF TOTAL PRIVATE BANK LIABILITIES. FINANCIERAS DEPEND ON VARIOUS TYPES OF FIXED DEPOSITS, MAKE MEDIUM-TERM LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MEXICO 04780 01 OF 02 140031Z

LOANS AND DIRECT INVESTMENTS. THEY ACCOUNT FOR OVER FIFTY PERCENT OF LOCAL PRIVATE BANKING LIABILITIES. (PERCENT BREAK-DOWNS EXCLUDE CAPITAL AND ARE BASED ON END-JANUARY 1976 DATA.) THERE ARE ABOUT 100 DEPOSIT BANKS AND OVER 70 FINANCIERAS. THESE INSTITUTIONS ARE OFTEN ASSOCIATED AND RUN FROM THE SAME OFFICES. RECENT GOM LAWS ARE AIMED AT CONSOLIDATING SOME OF SMALLER INSTITUTIONS AND PERMITTING THEM TO BECOME MULTI-BANKS, I.E., HAVE LICENSES TO ENGAGE

IN MORE THAN ONE OF FOUR TYPES OF BANKING BUSINESSES. IN ADDITION TO PRIVATE BANKING INSTITUTIONS (SOME OF WHICH ARE GOM-OWNED DUE TO INTERVENTION) THERE ARE 27 NATIONAL CREDIT INSTITUTIONS WHICH OPERATE UNDER SPECIFIC LAWS, BUT ENGAGE IN BORROWING AND LENDING ACTIVITIES SIMILAR TO THOSE OF PRIVATE BANKS.

3. OBLIGATIONS OF MEXICAN PRIVATE FINANCIAL INSTITUTIONS TO FOREIGNERS CAN BE BROKEN INTO THREE GENERAL CATEGORIES: (A) PESO-DENOMINATED LIABILITIES, (B) DOLLAR-DENOMINATED LIABILITIES TO FOREIGN INDIVIDUALS, AND (C) DOLLAR LIABILITIES TO FOREIGN FINANCIAL INSTITUTIONS. DATA ON PESO-DENOMINATED LIABILITIES ARE NOT MAINTAINED ON BASIS OF RESIDENCE OF LIABILITY HOLDER. BANK OF MEXICO WOULD LIKE TO KNOW FIGURE, BUT HAS BEEN RELUCTANT TO REQUIRE BANK REPORTING ON THIS BASIS BECAUSE IT FEARS THAT IT WOULD SET OFF RUMORS OF IMPENDING EXCHANGE CONTROLS. AS ABILITY OF MEXICO TO ATTRACT AND MAINTAIN PESO DEPOSITS (BY BOTH FOREIGNERS AND MEXICANS) DEPENDS IN LARGE PART ON CONFIDENCE IN EXCHANGE RATE BEING MAINTAINED, AND ON LACK OF EXCHANGE CONTROLS BANK OF MEXICO VERY RELUCTANT TO ADD TO EXISTING RUMORS ON THESE TWO MATTERS BY REQUIRING DATA ON RESIDENCE OF DEPOSITORS. THERE IS NO LIMIT ON THE AMOUNT OF PESO-DENOMINATED LIABILITIES A BANK MAY HAVE TO FOREIGN RESIDENTS, BUT THERE IS A CEILING OF \$400,000 EQUIVALENT PER INDIVIDUAL. THE BULK OF THESE DEPOSITS ARE IN THE FINANCIERAS, WITH SOME IN THE MORTGAGE BANKS. THE VOLUME OF THESE DEPOSITS IS UNKNOWN, BUT WE, AFTER DISCUSSION WITH VARIOUS BANKERS, ESTIMATE THEM TO BE FROM ONE TO TWO BILLION DOLLARS, INCLUDING THOSE IN THE NATIONAL CREDIT INSTITUTIONS, AND PROBABLY CLOSER TO THE LOWER FIGURE. INTEREST RATES NET OF TAXES RANGE FROM 7.5 PERCENT FOR MOST COMMON AND MOST LIQUID FIXED TERM DEPOSIT (FINANCIAL BONDS REDEEMABLE ON DEMAND LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 MEXICO 04780 01 OF 02 140031Z

WITH INTEREST PAID MONTHLY) TO 11.5 PERCENT FOR ONE-YEAR CERTIFICATE OF DEPOSIT OVER EQUIVALENT OF \$80,000. WITHHOLDING TAX ON INTEREST PAYMENTS TO FOREIGNERS IS 21 PERCENT. INTEREST RATES ARE SET BY BANK OF MEXICO AND THERE IS NO COMPETITION BETWEEN BANKS.

4. TOTAL FOREIGN EXCHANGE LIABILITIES OF PRIVATE BANKING INSTITUTIONS WERE \$1.2 BILLION AT END-JANUARY. THIS WAS 5.4 PERCENT OF TOTAL PRIVATE BANK LIABILITIES EX-CAPITAL. THIS FIGURE INCLUDES DOLLAR-DENOMINATED LOANS FROM FOREIGN FINANCIAL INSTITUTIONS AS WELL AS DEPOSITS BY INDIVIDUALS, BUT LATTER SAID TO ACCOUNT FOR BULK OF FIGURE. BANKS ARE ABLE TO ASSUME DOLLAR-DENOMINATED OBLIGATIONS ONLY WITH APPROVAL OF BANK OF MEXICO WHOSE REGULATIONS PROVIDE SOME BLANKET AUTHORIZATIONS. FOR INSTANCE, INDIVIDUALS RESIDENT

ABROAD OR IN THE FRONTIER ZONE MAY OPEN THREE, SIX OR 12-MONTH TIME DEPOSITS AT 7.5, 8.0, 8.5 PERCENT INTEREST RESPECTIVELY. MEXICAN RESIDENTS MAY OPEN DOLLAR-DENOMINATED TIME DEPOSITS FOR 3, 6, OR 12 MONTHS AT 6, 6.5 OR 7 PERCENT INTEREST RESPECTIVELY. THE MINIMUM DEPOSIT IS \$8,000.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MEXICO 04780 02 OF 02 140042Z

70

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

H-02 L-03 PA-01 PRS-01 /085 W

----- 054914

P 132300Z APR 76

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC PRIORITY 4227

INFO DEPT OF TREAS WASHDC PRIORITY

LIMITED OFFICIAL USE SECTION 2 OF 2 MEXICO 4780

FOREIGN CURRENCY LIABILITIES MAY NOT EXCEED 10 PERCENT OF PESO-DENOMINATED LIABILITIES. THE THREE AND SIX MONTH DOLLAR DEPOSITS FOR MEXICAN RESIDENTS WERE INTRODUCED IN LATE MARCH 1976. THESE RATES ARE ALL NET OF 21 PERCENT WITHHOLDING TAX ON INTEREST PAYMENTS. INTEREST RATE NET OF TAX FOR THREE AND SIX MONTH PESO TIME DEPOSITS LESS THAN \$80,000 EQUIVALENT ARE 8.5 AND 9.25 PERCENT RESPECTIVELY. DOLLAR-DENOMINATED LOANS FROM FOREIGN FINANCIAL INSTITUTIONS CONNECTED WITH FOREIGN-TRADE TRANSACTIONS ARE GENERALLY PERMITTED UNDER A BLANKET AUTHORIZATION. THERE IS NO GENERAL PURPOSE BORROWING FROM FOREIGN FINANCIAL INSTITUTIONS. BECAUSE OF THE RELATIVELY STRINGENT CREDIT POLICY, MEXICAN BANKS HAVE BEEN TURNING THEIR LOCAL CUSTOMERS OVER TO FOREIGN BANKERS. THERE IS NO LIMIT ON FOREIGN BORROWING BY PRIVATE MEXICAN NON-BANKING INSTITUTIONS, NOR IS THERE A REPORTING REQUIREMENT. WE HAVE ESTIMATED TOTAL FOREIGN-CURRENCY OBLIGATIONS OF MEXICO'S PRIVATE SECTOR AT \$6-8 BILLION AS OF

END-1976. (SEE MEXICO 3603). UNCOVERED FOREIGN EXCHANGE POSITION CANNOT EXCEED \$1.2 MILLION PER BANK.

5. THE BANK OF MEXICO HAS THE LEGAL RIGHT TO REQUIRE THAT UP TO 100 PERCENT OF PRIVATE BANK DEPOSITS BE HELD WITH IT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MEXICO 04780 02 OF 02 140042Z

AS RESERVES OR IN SPECIFIED INVESTMENTS. RESERVE REQUIREMENTS ARE THE CENTRAL BANK'S PRINCIPAL MONETARY TOOL. DEPOSIT INTEREST RATES ARE RIGID, BEING ALTERED SELDOM, THE LAST TIME WAS JANUARY 1, 1976, (SEE MEXICO 24) AND PRIOR TO THIS IN MID-1973. RESERVE REQUIREMENTS ARE USED NOT ONLY TO ENSURE BANK LIQUIDITY BUT ALSO, ALONG WITH PROVISIONS IN BANKING LAWS, TO CHANNEL CREDIT INTO PRIORITY AREAS. IN RECENT YEARS THESE RESERVE REQUIREMENTS HAVE BEEN TIGHTENED LARGELY TO PERMIT THE CENTRAL BANK TO CHANNEL FUNDS TO THE GOVERNMENT. 58 PERCENT OF THE INCREASE IN PRIVATE BANK LIABILITIES IN 1975 WENT TO CENTRAL BANK, WHICH LENDS DIRECTLY TO THE GOVERNMENT. RESERVE REQUIREMENTS VARY ACCORDING TO THE TYPE OF DEPOSIT AND ALSO ACCORDING TO TIME, I.E., DEPOSITS AS OF ONE DATE HAVE ONE RESERVE REQUIREMENT WITH ANY SUBSEQUENT INCREASE HAVING A SEPARATE AND HIGHER RESERVE REQUIREMENT. CENTRAL BANK PAYS INTEREST ON SOME REQUIRED DEPOSITS, BUT NOT ON OTHERS. RESERVE REQUIREMENTS ARE DETAILED IN TABLE 1-8 OF BANK OF MEXICO'S MONTHLY STATISTICAL BULLETIN. FOR EXAMPLE, EFFECTIVE RESERVE REQUIREMENTS ON DEMAND DEPOSITS IN PESOS IN MEXICO CITY BANKS AS OF SEP 27, 1974 WAS 49 PERCENT, WITH EFFECTIVE RESERVE REQUIREMENT FOR THE AMOUNT IN EXCESS OF THE SEP 27, 1974 DEPOSITS AT 77 PERCENT. RESERVE REQUIREMENTS ON DOLLAR DEPOSITS BY MEXICAN RESIDENTS IS 100 PERCENT, ON 75 PERCENT OF WHICH INTEREST IS PAID. 75 PERCENT OF NON-RESIDENTS' DOLLAR DEPOSITS MUST BE KEPT WITH BANK OF MEXICO AND OTHER 25 PERCENT CAN BE INVESTED FREELY. THUS DOLLAR-DENOMINATED DEPOSITS ARE A MEANS TO MAINTAIN CENTRAL BANK RESERVES INTACT. AT END-JANUARY 1976, ROUGHLY ONE-THIRD OF PRIVATE BANKS LIABILITIES WERE ON DEPOSIT WITH CENTRAL BANK. THERE IS NO INDICATION THAT CENTRAL BANK INTENDS TO RELAX RESERVE REQUIREMENTS.

6. THE 27 NATIONAL CREDIT INSTITUTIONS INCLUDE NACIONAL FINANCIERA, NATIONAL BANK OF PUBLIC WORKS (BANOBRA) WHICH OPERATES AS A DEPOSIT BANK AND FINANCIERA AND NATIONAL BANK FOR RURAL CREDIT WHICH OPERATES MORE OR LESS AS A DEPOSIT BANK. THE ORGANIC LAWS OF THESE THREE INSTITUTIONS STIPULATE THAT THE FEDERAL GOVERNMENT SHALL BE RESPONSIBLE FOR THEIR EXTERNAL OBLIGATIONS. TOTAL LIABILITIES IN FOREIGN CURRENCY OF THE NATIONAL CREDIT INSTITUTIONS WERE \$7.9 BILLION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MEXICO 04780 02 OF 02 140042Z

OR 63 PERCENT OF THEIR TOTAL LIABILITIES AT END-JANUARY 1976. NAFINSA IS THE LARGEST OF THESE INSTITUTIONS, ACCOUNTING FOR ABOUT ONE-HALF OF THIS GROUP'S TOTAL LIABILITIES AND PROBABLY A LARGER SHARE OF THE FOREIGN CURRENCY OBLIGATIONS. IT IS SUBJECT TO GENERAL REGULATIONS ON MOST OF ITS DOMESTIC CURRENCY BUSINESS, BUT NOT ON ITS FOREIGN BORROWING. NAFINSA WOULD HOLD THE BULK OF MEXICO'S \$1.9 BILLION DEBT TO THE IBRD (AS OF JANUARY 31, 1976) AND AS OF DECEMBER 31, OWED IDB \$585 MILLION. IT ALSO IS A MAJOR BORROWER FROM EXIMBANK AS WELL AS FROM FOREIGN COMMERCIAL BANKS AND IN FOREIGN CAPITAL MARKETS. BANOBRAS ALSO BORROWS DIRECTLY FROM ABROAD. AS OF SEPTEMBER 30, 1975, FOREIGN CURRENCY OBLIGATIONS OF NAFINSA AND BANOBRAS WERE \$5.9 BILLION. OF THIS AMOUNT \$117.2 MILLION WERE IN BONDS, \$4.4 BILLION WERE IN EXTERNAL CREDITS OF WHICH \$325 MILLION WERE SHORT TERM CREDITS AND \$1.4 BILLION WERE GUARANTEES AS ENDORSEMENTS. THESE INSTITUTIONS ACCEPT DOLLAR-DENOMINATED DEPOSITS AND PESO-DENOMINATED DEPOSITS ON THE SAME TERMS AS PRIVATE BANKS. THESE WOULD NOT BE VERY GREAT. BORROWING BY PUBLIC SECTOR ENTITIES IS CONTROLLED BY THE TREASURY WHICH ATTEMPTS TO SCHEDULE MAJOR ISSUES BY PUBLIC SECTOR ENTITIES IN A WAY NOT TO DISRUPT OR CONFUSE THE FOREIGN MARKET FOR MEXICAN PAPER. THOMPSON

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, BANKS, FOREIGN EXCHANGE, FOREIGN EXCHANGE TRANSACTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchant0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MEXICO04780
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760140-0639
From: MEXICO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760468/aaaacfml.tel
Line Count: 304
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: buchant0
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUL 2004 by coburnhl>; APPROVED <29 OCT 2004 by buchant0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OBLIGATIONS OF MEXICAN FINANCIAL INSTITUTIONS TO FOREIGNERS
TAGS: EFIN, MX
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006